



Financial Management Systems Improvement Council
Meeting Notes
Hyatt Regency Bethesda
Bethesda, MD
November 7, 2001

Attendees: Bonnie Apodaca-SNL, Tom Baranouskas-PNNL, Jim Campbell-DOE HQ, Nancy Fitchpatrick-DOE OR, Paul Grefenstette-WSRC, Jim Herring-LANL, Jim Lopez-LLNL, Brian Morishita-INEEL, Paul Rosenkoetter-INEEL, Brian Sack-BNL, Herman Smith-DOE AL

Guests: Mark Israel-BNL, Phil Schultz-LLNL

Not present: Ralph Bonner-SNL, Bruce Chrisman-Fermilab, Paul Keele-DOE ID, Dean Olson-DOE AL, Ron Ragland-BWXT Y12

CFO Changes/Update

- Effective October 1, 2001, the Offices of Management and Administration and Chief Financial Officer have been merged into the Office of Management, Budget and Evaluation/Chief Financial Officer. Bruce Carnes serves as Office Director and CFO, Christina Edwards serves as Principal Deputy Director, and Jim Campbell serves as Deputy CFO.
- Of the former CFO components, there have been some changes since we last met. These include separating the Office of Engineering and Construction Management and the Office of Program Liaison and Financial Analysis from the Office of Program Analysis and Evaluation with all three organizations direct reporting to Dr. Carnes.
- Basically, the organization structure includes the CFO and Principal Deputy and 12 Office Directors:
 - Lyn Henderson - Budget (Essentially Unchanged)
 - Jim Powers - Program Analysis and Evaluation
 - Jim Rispoli - Engineering and Construction Management
 - Rick Sweeney - Program Liaison and Financial Analysis
 - Jim Campbell - Finance and Accounting Policy

- Tim Dirks - Personnel
 - Richard Hopf - Procurement and Contracts Management
 - Linda Sye - Administrative Services
 - Jim Solit - Office of Executive Secretariat
 - Bob Jenkins - Aviation Management
 - Steve Smith - Management and Operations Support
 - Howard Borgstrom - Working Capital Fund
- Continuing to maintain an unqualified audit opinion on the Department's financial statements is a major priority of this Administration.
 - Dr. Carnes is very focused on the BMIS Phoenix project and we are briefing him every two weeks on our progress.

Operational Program Reviews

- I mentioned in July an initiative from the Deputy Secretary designed to improve overall business management at the Department, for which the CFO was taking the lead, calling for quarterly operational program reviews. A pilot review of the Office of Energy Efficiency and Renewable Energy was completed by the CFO in August. Based on the results, the Deputy Secretary decided to suspend full implementation of the process to allow program offices more time to better identify their top priorities and related performance metrics.
- In guidance dated September 21, 2001, the Deputy Secretary requested that each Program Secretarial Officer and Heads of other major offices provide the following to the CFO by November 16, 2001.
 - The top ten priorities for your organization ranked or grouped in order of importance.
 - The methodology used by each office for tracking progress and measuring performance with respect to each of the priorities identified.
- Then, each Secretarial officer will meet with the Deputy Secretary to discuss their responses and to serve as a forum for refining and finalizing the priorities and determining which goals or metrics are to be incorporated into management's performance appraisals and the Department's budget.
- As part of this effort, the Deputy Secretary is transforming the system for measuring senior executive performance.

Congressional Language and Marks

- FY 2002 Energy and Water Development (EWD) Appropriations. The House approved the FY 2002 EWD Bill on October 30, 2001 and the Senate approved the

Bill on November 1, 2001. The Bill has now been sent to the President for signature. In the interim, we continue to operate under a continuing resolution through November 16. Some of the significant provisions contained in the EWD Conference Report include:

- None of the funds appropriated may be used to award an M&O contract, or a significant extension or expansion unless awarded using competitive procedures.
- The conferees expect the Office of Engineering and Construction Management to be fully funded to support enhanced systems development and deployment, training, process improvements, and accountability. The conferees acknowledge the expanded mission of the office encompasses project closure, facilities, and infrastructure management activities and urge the Secretary to give priority to retaining within the Department the technical skills needed for federal project and real property management.
- The conferees have provided funding in several programs for facilities and infrastructure improvement projects to allow the Department to begin to correct its worst deferred maintenance deficiencies and eliminate excess facilities. The conferees direct each site (not slated for closure) to prepare a ten-year site plan prescribing space utilization activities, then reduce its baseline for maintenance costs by ...
- Beginning in FY 2003, the Department must present an integrated facilities and infrastructure budget request.
- The Secretary is directed to conduct a study of alternative financing approaches, to include third party types, for infrastructure and facility construction projects across the department by March 30, 2002.
- The Department is directed to prepare an implementation plan for the transition to external regulation at the Department's non-defense science laboratories. For purpose of this plan, DOE should assume NRC would take over regulatory responsibilities for nuclear safety at the non-defense science laboratories and OSHA would take over worker safety at these laboratories. Plan is due by May 31, 2002.
- Conferees did not provide any internal reprogramming unless specifically identified by the House, Senate, or conference agreement.
- The conferees recognize the benefit of LDRD and expect LDRD activities to continue at previously authorized levels. However, when accepting funds from another Federal agency that will be used for LDRD activities, DOE shall notify that agency in writing how much will be used for LDRD

activities. In addition, the conferees direct the Secretary to include in the annual report to Congress on LDRD activities an affirmation that all LDRD activities derived from funds of other agencies have been conducted in a manner that supports science and technology development that benefits the programs of the sponsoring agencies and is consistent with the Appropriations Acts that provided funds to those agencies.

- No statutory travel restrictions are included. However, the Committee directs the Department to maintain contractor travel summaries adequate for periodic reviews of programmatic relevance and costs of contractor travel.
 - The Department is to report by January 15, 2002, on all independent centers at each laboratory or facility funded by the Department in FY 02, with the same level of detail contained in the FY 01 report.
- FY 2002 Interior Appropriations – The Bill was signed by the President on November 5, 2001

NNSA Update

Deputy Administrator for Defense Nuclear Nonproliferation - Linton Brooks was sworn in on October 30.

OMB has reorganized to review the NNSA budget:

- Oversight of NNSA has been transferred from the Energy, Science and Natural Resources Division of OMB to the National Security Division.
 - OMB wants to include Department of Defense review of the NNSA budget request.
 - OMB passback of the NNSA budget will be likely be in mid-December.
- NNSA Reprogramming Process Reengineering
 - NNSA is reengineering its reprogramming process to decrease the amount of time it takes to submit a reprogramming to Congress. The team effort, in which the Budget Office is participating, is led by Rabi Singh.

Conference Report Language Impacting the NNSA

The Administrator, NNSA, may authorize the plant manager of a weapons production plant to engage in research, development and demonstration activities with respect to engineering and manufacturing capabilities at such plant in order to maintain and enhance such capabilities at the plant (not more than 2% of funds available to DOE for national security

programs and allocated to the plant may be used for such activities). Also, the manager of NV is authorized to use not more than 2% of available funds for research, development and demonstration activities necessary for operation and readiness of the NTS.

- The conferees are concerned that the new NNSA structure may have had the unintended consequence of unnecessarily increasing the Department's overall personnel costs. By January 31, 2002 the Secretary is to report on staffing increases arising from the creation of the NNSA and address broader administrative staff concerns of the Committee and potential staffing reductions to the NNSA or other DOE offices if administrative support functions could be staffed more efficiently.
- Nuclear Posture Review – Conferees are concerned that NNSA not spend funds early in FY 02 that turn out to be a wasted effort once the subject review and its implementation by the Administration and the Congress is completed.
- NNSA Budget Justifications – Conferees agree that NNSA budget justification material for major weapon acquisition programs is not sufficient to assure adequate Congressional oversight of these programs. Conferees direct Administrator, NNSA to submit Selected Acquisition Reports once a year to the Armed Services and Appropriations Committee to accompany the FY 03 and subsequent President's Budgets. These should be similar in content and format to reports submitted by DOD. Also, the conferees directed the Comptroller General to review NNSA's FY 03 submission of Selected Acquisition Reports within 90 days of their submission to the Congress and assess whether they adequately and thoroughly identify information equivalent to what DOD provided Congress in its Selected Acquisition Reports.
- Reprogramming – Limited reprogramming authority provided in the Weapons Activities account without advance approval by the House and Senate Committees. Reprogramming thresholds as follows: DSW, science campaigns, engineering campaigns, inertial confinement fusion, advanced simulation and computing, pit manufacturing and certification, readiness campaigns, and operating expenses for RTBF to provide needed flexibility to manage these programs. In addition, not more than \$5 M may be transferred between these categories and each construction project subject to limitations (only one transfer may be made to or from a program or project, transfer must be necessary to address a risk to health, safety or the environment or to assure the most efficient use of weapons activities funds at a site; and funds may not be used for an item for which Congress has specifically denied funds or for a new program or project that has not been authorized by Congress).
- \$200M provided for Facilities and Infrastructure. Conferees direct that at least 25% be used to dispose of excess facilities that will provide the greatest impact on reducing long-term costs and risks.

- Limitation on Russian Funding – Conferees are concerned with funding for Russian and NIS programs which remains in the U.S. for DOE contractors and laboratories rather than going to facilities in Russia and NIS. Conferees expect DOE to continue to increase the level of funding provided to Russia vs. funding which remains with contractors and labs each subsequent year. Conferees direct the Department to apply the lowest possible overhead rates and increase percent of funding spent in Russia. Report, by January 31, 2002, and each subsequent year on amount of funding provided to Russia and NIS in each program area.
- Conferees direct the Secretary to consult with the Governor of South Carolina regarding any decisions or plans related to disposition of surplus defense plutonium located at SRS. The Secretary is to submit a plan for disposal of surplus defense plutonium currently located at SRS and for disposal of defense plutonium and defense plutonium materials to be shipped to SRS in the future by February 1, 2002.
- Conferees consolidated in a separate account for the Office of the Administrator program direction funding for weapons, defense nuclear nonproliferation, and office of administrator program direction accounts at \$25 million below the request.

Overhead Review

- Not much new to report on this subject other than that GAO is conducting a review of overhead at the Department's contractors.
- GAO was requested by the Chairman, Senate Armed Services subcommittee on Emerging Threats and Capabilities, to review DOE's national laboratory overhead rate structure.
- The entrance conference was held September 12, 2001 and was well attended by all affected Headquarters Organizations. At the entrance GAO stated that they were conducting a review of the overhead rates, their reasonableness and how DOE is managing the rate structure. GAO stated further that they would concentrate more on the rate management aspects than the aspect of reasonableness.
- The first two to three weeks GAO spent interviewing ME 100 staff to gain an understanding of (1) how the Department viewed overhead, (2) what reviews have been conducted in the past, and (3) what was overhead and how did it relate to functional cost. The last several weeks GAO has interviewed Headquarters offices, particularly DP, EM and SC to determine their views of overhead, how they manage overhead, and their views toward functional cost. Next step is visits to the field.

Government-wide Financial Reporting Changes

- The President has submitted to the Congress a bold strategy for improving the management and performance of the Federal government. Included in the President's

management agenda are government-wide initiatives involving strategic management of human capital, competitive sourcing, improved financial performance, expanded electronic government, and budget and performance integration.

- As part of this effort, OMB has developed an “Executive Branch Management Scorecard,” which will be used on a quarterly basis by the Administration for assessing agency progress on each of these initiatives. Such assessments will begin with a baseline status as of September 30, 2001. The scorecard includes specific criteria to be met for each initiative and employs a green, yellow, and red light approach to assess status and progress.
- Within the initiative to improve financial performance are major requirements involving financial statements and reductions in the amount of erroneous payments made government-wide.

Erroneous Payments

- In his FY 2003 Guidance and Allowance letter to Heads of Agencies, the Director, OMB indicated that in the area of improved financial performance, the immediate objective is to reduce erroneous payments. Further, OMB will work with agencies to include in the FY 2003 budget submission information on erroneous payment rates, including actual and target rates for directly administered programs over \$2 billion.
- In addition to the Administration’s initiative, the Chairman and Ranking Member of the Senate Government Affairs Committee, referencing a GAO report that identified that agencies have made between \$19.1 and \$20.7 billion in erroneous payments in FY 1998 and FY 1999, are similarly concerned about this problem. In their recent correspondence to the Secretary, they reference a draft GAO Executive Guide, “Strategies to Manage Improper Payments,” which identifies strategies and best practices used by private industries and some Federal agencies to reduce improper payments.
- While the problems noted by GAO primarily involve entitlement programs, since most agencies do not include estimates of their improper payments in their annual financial statements, they (GAO and the Committee) believe the full amount of the improper payments is significantly greater.
- According to GAO, improper payments stem from agency errors, such as duplicate payments, poor management of agency programs, or outright fraud and abuse by program participants and/or agency employees.
- While we can take comfort in our systems of internal controls, the annual financial statement audits not identifying any significant issues with respect to our payment activities, and a separate IG audit of payments at one of our contractor sites and

payment centers not identifying any significant issues, this will not be sufficient to answer the Senators inquiries nor to respond to Administration concerns.

- To address this, we are working in consultation with the IG to review FY 2001 payments at selected Departmental and contractor sites to get a broad gauge of the nature and extent of erroneous payments. Based on the review, the CFO will establish appropriate guidance on controls related to the payment process.
- For FY 2002 payments, the CFO is requiring that each payment office identify and track all erroneous payments and take corrective actions, as appropriate, to minimize future incidences. Furthermore, each payment office will be required to report the number and dollar amount of erroneous payments so that the CFO can assess the magnitude and progress toward reduction, and be positioned to provide an update to the Committee.

Financial Statements

- For FY 2001, the due date for submission of agency performance and accountability reports to the Congress will be accelerated from March 31 to February 27. For FY 2002, the due date will be February 1. For FY 2004, the goal is that agency financial statements will be completed by November 15 and consolidated government-wide statements completed by December 15.
- In addition, we are required to submit unaudited interim financial statements to OMB by May 31, 2002 for the six-month period ended March 31, 2002 and subsequent quarterly statements are due to OMB no later than 45 days after the end of the reporting quarter.
- To meet these requirements, especially the requirement for accurate and timely interim financial statements, the Department must identify a series of actions and the methodology for accelerating Departmental and contractor accounting entries currently made on an annual basis (e.g., environmental liabilities, post-retirement benefits, certain managerial accounting cost allocations, etc.) as well as develop an interim post closing and adjustment process.
- As a first step, Rick Loyd is chairing a HQ/Field project team to develop and present to management recommendations to implement this initiative. This group includes representation from each field CFO, EM, SC, and NNSA, and the Power Marketing Administrations.
- On September 25, 2001 OMB issued guidance for Form and Content of Agency Financial Statements that addressed these and other financial statement requirements. The guidance is essentially unchanged from the draft issued in May of this year. Note the interim financial statements will be unaudited (at least for now).

- In addition, the JFMIP has contracted with KPMG to look at the Intra-governmental Elimination issue, one of the major issues impacting a clean government-wide opinion. The intent of this effort is to provide for the ability to significantly increase the use of automated procedures for recording, reconciling, and reporting these transactions. Currently, few agencies are able to reconcile these transactions with their trading partners.
- Note we are now required to reconcile our intergovernmental transactions with our trading partners on an annual basis. Starting next year, we will be required to do so as of March 31, 2002 and quarterly thereafter. That means contractors will need to provide your OPI data more frequently than once a year during FY 2002 and future years. We have advised the field offices that for agencies meeting our materiality threshold for FY 2001 we will need a detailed listing by reimbursable agreement number of all expenses incurred on behalf of/revenues received from the applicable Federal agency.
- The continued support of the contractor community is imperative if we are to build on our successes and government wide reputation in the area of audited financial statements. I know you will be up to the challenge.
- KPMG has performed their interim test work for the FY 2001 financial statement audit and is now back auditing the final Departmental balances. They have raised, as they did last year, serious concerns with network security, access controls, etc. Further, in their audit of the Department's implementation of the Government Information Security Reform Act, the IG has determined that cyber security at the Department of Energy is a material internal control weakness.

Legacy Waste Capitalization

See Paul Grefenstette's handout.

Safeguards and Security

A methodology for handling S&S charges needs to be developed because of problems with reconciliation. Specifically, how to reconcile S&S charges with interoffice work.

Action: *Mark Israel will take the lead on surveying how other contractors are doing this. Jim Campbell will see if the DOD can be direct billed.*

Streamlining the WFO Process

In light of counter-terrorism related work being requested, how to speed up the authorization/funding process was discussed. An emergency process involving LLNL, LANL, and Sandia was used in response to the requests received from the 09/11/01 terrorist attacks. A proposal that would eliminate the 3% FAC, eliminate the need for DOE labs to conform to the competition clauses, utilize blanket memorandum of understandings with other federal agencies, and transfer signature responsibility to the contractors is work

its way through NNSA . No action on FMSIC's part is required but members were encouraged to discuss this issue with their respective field offices.

Emergency Funding for DOE or WFO Projects

One solution to the was the usage of B&R 40, fund type SA to report short term (30 days) emergency effort related costs. Another possible solution is to create a revolving fund that would be used to fund emergency related work. The need to (1) identify who funds this, (2) when it can be used, (3) discuss liability related issues and (4) the need to ensure that the local contracting officer concurs with this approach was identified.

Action: *Jim Campbell, Jim Herring, Bonnie Apodaca, and Lyn Henderson (if available) will meet on 11/08/01 to scope this issue.*

Disaster Recovery Planning

Discussion of what each site was doing for disaster recovery planning with their business systems was held. This question was originally asked by Jim Lopez who was particularly interested in the format other sites were using.

Action: *Members were asked to provide any disaster recovery planning information they could to Jim Lopez.*

Budget Results Council

John Pescosolido, BRC Co-Chairman, reported on the most recent activities of the BRC. They were (1) membership. New members and replacements on the Council are currently being sought. It was decided that the DOE-HQ members on the Council would include Eli Bronstein, Ralph Delorenzo, Buddy Garland, Lyn Henderson, Tony Lane and Jon Mathis. DOE field offices to be represented include CH, AL, ID, OK, NETL, OH, and OV. Contractor sites would include Dan Becker/WSRC, Greg Turner/Oak Ridge, Wendy Bechdel/Sandia, and a representative from Kansas City. (2) Waiting for approval on the IGPP proposal. (3) Contractor Travel Ceiling Management. Although there is no statutory ceiling on contractor travel, HQ wants to maintain a travel ceiling. Jerry Hammond, DOE-AL, submitted a proposal to HQ regarding travel practices. (4) The revamping the reprogramming process was sent to Dr. Carnes for his review.

Action: *A conference call will be held with the BRC to discuss the next FMSIC/BRC Annual Conference.*

Change of Station Costs

An analysis of change of station costs (off-site assignment) was conducted and questioned if these costs should be treated as IPA's (i.e., only labor and fringe). It was decided no further action from FMSIC was required.

GPP/Capital Equipment Thresholds

An analysis conducted by LANL showed the impact of escalation on the FY-1998 based threshold for GPP. It was decided by the Council to defer action on this and the capital equipment threshold until the IGPP proposal was in place.

FMSIC/BRC Annual Conference

The next FMSIC meeting and FMSIC/BRC Annual Conference will be held at the Hyatt Regency Bethesda, Bethesda, MD, March 26-28, 2002. The Council and the Oracle and PeopleSoft User Groups will meet on Tuesday, March 26. The FMSIC/BRC Annual Conference will be held on March 27-28.

Topics suggested for the conference include:

- Gartner Group – ERP Technology Trends and Electronic Signature
- Disaster Recovery Planning
- Facilities and Infrastructure
- CFO Update by Dr. Carnes
- OMB
- Jack Marburger, Science Adviser to the President
- BRC Update
- BMIS Phoenix Update
- Governance Model

Restoring the FMSIC Membership to 10 Contractors

A discussion was held whether or not to increase the membership from 9 to 10.

Composition of the Council includes 1 DOE-HQ, 3 DOE field offices, 4 DP sites (LANL, LLNL, SNL, Y-12), 2 WM sites (INEEL, WSRC) and 3 SC sites (BNL, Fermi, PNNL).

The Council voted to have Argonne become a FMSIC member.

Directives Review

A DOE team is currently reviewing the directives issued to contractors to determine relevance and appropriateness of the requirements imposed upon the contractors.

Action: Jim Campbell will provide more information on this effort to the members.

Next FMSIC Meeting

March 26, 2002, Hyatt Regency Bethesda, Bethesda, MD

